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SUBJECT: ENERGY REGULATORS DISCUSS POSSIBLE RELATIONSHIP

This message was coordinated with Embassy Ankara.

11. (SBU) Summary: The Energy Regulators Regional Association (ERRA) met in Istanbul May 21-22 to discuss regional energy market development, energy security, renewable energy, and energy efficiency. The conference was partially funded by USAID. Yusuf Gunay, President of the Energy Market Regulatory Authority of Turkey (EMRA), seeks collaboration with the USG on energy regulatory matters, also identified separately as an Economic Partnership Commission (EPC) action item. Gunay raised this possibility with Robert Archer, Energy Team Leader of the Energy and Infrastructure Division of USAID's Bureau for Europe and Eurasia, on the margins of the conference. EMRA officials were pleased that Gunay was named the new ERRA president at the conclusion of the conference. End Summary.

Regulatory Conference

12. (U) The Energy Regulators Regional Association (ERRA), a voluntary organization comprised of energy regulatory bodies of Central/Eastern Europe (CCE) and the Commonwealth of Independent States (CIS), held its 6th Energy Regulation and Investment Conference from May 21-22 in Istanbul, Turkey. The conference proceedings revolved around the following four themes: (1) regional energy markets, (2) regional energy security, (3) electricity and gas market development, and (4) renewables and energy efficiency. The conference was partially funded by USAID and several U.S. officials participated.

13. (U) Robert Archer, Energy Team Leader of the Energy and Infrastructure Division of USAID's Bureau for Europe and Eurasia, explained that USAID collaborates with ERRA Member States to help them develop sound energy regulatory frameworks. The three main characteristics of such frameworks are authority, autonomy, and accountability. In particular, the appropriate actors in the energy sector must have sufficient authority to exercise their regulatory functions, including through the levying of tariffs. These regulatory actors must also be autonomous from short-term political influence. Accountability should be improved through increased transparency, specifically by promoting public participation and regular reporting to legislative officials. Mr. Archer further stated that regulatory activities should be predictable, since unpredictability in this context creates problems for investors. He also identified two current trends in the energy sector: 1) the emergence of regional markets and an increase in cross-border trading necessitates greater transparency, and 2) customers are demanding higher quality service.

14. (U) James Kerr, president of the U.S. National Association

of Regulatory Utility Commissioners (NARUC), and Missouri electricity commissioner, stated that NARUC has been working with EMRA Member States since 1999. The challenges that regulators and investors face in these countries - specifically those concerning environmental protection and energy efficiency - are similar to those faced in the United States. NARUC has established a task force on climate change and will encourage lawmakers to consider the impact that any potential climate-related legislation will have on consumers. He further noted that the U.S. Congress will consider energy efficiency legislation in the near future.

Energy Partnership

15. (U) The issue of an energy partnership between USG and EMRA was raised on May 22 by a senior EMRA representative. Robert Archer, Energy Team Leader of the Energy and Infrastructure Division of USAID's Bureau for Europe and Eurasia, met Yusuf Gunay, president of EMRA, on the sidelines of the 6th Energy Regulation and Investment Conference in Istanbul to follow up on this matter.

16. (SBU) Mr. Gunay explained that EMRA would like to collaborate with the USG in the same way that USG does with other foreign regulators (such as Croatia and the New York State Public Utility Commission) at both the state and federal regulatory commission levels. EMRA would also like to engage the State Department in a dialogue on strategic issues of mutual concern (also separately identified in the February Economic Partnership Commission meetings by EMRA officials). Mr. Gunay saw common U.S.-Turkish interests in the energy sector, as demonstrated by American AES Corporation's sizable presence in Turkey (strong interest in the postponed electricity distribution privatization). He also pointed out Russia's increased interaction with Turkey on energy matters.

17. (SBU) Mr. Archer said the issue of funding would need to be examined further and that candidates for state regulatory partnerships would need to be identified. He told Mr. Gunay that he would consult with AmEmbassy Ankara and the Departments of State and Energy and then advise AmEmbassy Ankara on what can and cannot be done concerning a relationship between the USG and EMRA.

18. (SBU) COMMENT: Gunay and EMRA officials have long sought increased interaction with the U.S., building from periodic visits to the U.S. We strongly endorse this kind of cooperation to assist EMRA in increasing its competence and in maintaining its independence. EMRA has struggled to maintain its authority vis a vis the Energy Ministry and has not hesitated to work on controversial issues such as fuel product trade (enforcing a fuel marker provision to combat rampant smuggling). EMRA has been criticized for moving too slowly on wind and hydroelectric licensing for new projects.

JONES